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SUBJECT: DRC OCTOBER ECONOMIC REVIEW

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Aviation

(U) Minister of Transportation Fired

The GDRC Minister of Transportation, Remy Henri Kuseyo Gatanga, was fired following the crash of an Antonov 26 during take off in Kinshasa on October 4. Kuseyo tried in September to ground all Antonov aircraft operating in the DRC, but withdrew a proposed blanket ban after State Minister Nkulu Kilombo intervened on behalf of the Presidency. Nkulu survived an attempt by opposition members of Parliament to turn him out of office following the crash.

(U) SN Brussels Joins with Hewa Bora to Create New Airline.

SN Brussels airline has changed its name to "Brussels Airlines" and will offer daily non-stop flights between Kinshasa and Brussels. The airline has also joined with the DRC airline Hewa Bora (HBA) to create a new airline, AirDC. HBA has a 51% stake in AirDC, and the new airline has a fleet of 6 aircraft: four British Aerospace (BAE) 146s and two Boeing 737-800s. The BAE 146s, like the widely used Antonovs, are adept at landing on the short, rough runways found in

the DRC. The 737-800s will offer regional flights to Angola, Nigeria, South Africa, Kenya, Rwanda, and Burundi.

(U) Fire Extinguishers for Airport Authority

The Rgie des Voies Ariennes (RVA), DRC's Airport Authority, provided USD 6,500 for five mobile fire extinguisher materials at the Goma airport. Two will be powered by electricity, two will be foam-based, and one will use carbon gas. According to Thomas Oleko, an engineer who works for RVA, the new acquisitions are adequate for only half of the typical accidents. Larger incidents require trucks and other equipment that the Goma airport does not have.

Budget and Finance

(U) IMF Team in Kinshasa

An IMF team from Washington, led by Africa Regional Office Director Brian Ames, was in Kinshasa for two weeks to meet with GDRC officials, international partners and donor countries. They evaluated the state of the Congolese economy and its financial situation. The team predicted an increase in DRC's growth rate from 5% to 6%, but cautioned the GDRC against the macroeconomic effects of China's USD 5 billion investment.

(U) Central Bank of DRC Sells Off Property

The Central Bank of the DRC (Banque Centrale du Congo - BCC) will sell off approximately 50 residential and commercial properties. This follows the announcement of its Strategic Development Plan and National Financial System published on July 15, 2006. A contact at

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BCC reported that this move follows recommendations made by the IMF.

Commercial

(U) Cement Shortage Continues

Due to a severe shortage, the GDRC has agreed to ease restrictions on importing gray cement. Two companies in the Kinshasa/Bas-Congo region produce approximately 520 thousand tons of gray cement per year, well below the demand of three million tons.

Energy

U) Problems at Inga Hydroelectric Dams

Yengo Massampu, head of DRC's Socit Nationale d'Electricit (SNEL), warned of potential blackouts in Kinshasa due to problems at the Inga hydroelectric dams. Only one of six turbines at Inga I and two of eight at Inga II are currently operating. Due to demand on the system, the working turbines are in danger of failure. A World Bank-funded company working to rehabilitate Inga I recently suspended operations. Kinshasa has been experiencing extended outages and, according to Yengo, there will be more power failures if nothing is done to improve the situation.

(U) USTDA and SNEL Sign Grant Agreement for Hydroelectric Plant Pre-Feasibility Study

USTDA and SNEL signed a \$553,534 grant agreement on September 28 to fund a feasibility study of Nzilo II, a new hydroelectric power plant near Kolwezi in Katanga province's copper belt. The study will be conducted by a U.S. contractor chosen by the GDRC/SNEL, and will hopefully lead to the eventual financing and completion of the Nzilo II project, located on the Lualaba River between the existing power plants of Nseke and Nzilo 1, and will provide electricity to mining companies operating in the area.

(U) BHP Billiton Funds Construction of Inga III Dam

(U) Mining company BHP Billiton signed a USD 20 million agreement with the DRC to fund construction of the Inga III dam in the Bas-Congo province. BHP Billiton has also agreed to investigate the feasibility of developing an aluminum smelter using energy from the dam. Estimated to cost USD 3 billion, the smelter would produce 800,000 tons of aluminum annually and would require 2,000 MW of electricity.

(U) Transmission Cables Purchased for Kinshasa and Bas-Congo

(U) The SNEL (Socit Nationale d'Electricit) recently purchased electrical transmission cable for use in Kinshasa and three other cities of the Bas-Congo province. Two companies, Montreal and Ficthtner, provided the cables through the "Bureau de Coordination des Marches des Infrastructures" (BCMI), a part of the World Bank. The total cost is estimated at USD 14 million.

ESTH

(U) Ebola Outbreak Appears to Have Ended

Mdecins Sans Frontihres (MSF) reports that the Ebola outbreak in the Western Kasai province appears to have ended. A total of 25 Ebola cases have been recorded since September 11th, but no new cases have been reported for over 21 days (the usual incubation period of Ebola). MSF said the official end to the outbreak could not be declared until a second period of 21 days (through mid-November) passes without any new cases.

Labor

(U) Teacher's Strike Ends

Teacher's unions' SYNECAT and SYECO announced that the nationwide public school teachers' strike is over. The government has agreed to give all civil servants, including teachers, a 26 percent salary increase. This would bring teachers starting salaries up to approximately USD 88 per month. At the same time, the government agreed to pay teachers the same salaries across the country. Union managements said they believe that the salary increase will be

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accepted by members.

(U) Gcamines Employees Demonstrate

Employees of Gcamines, the state copper and cobalt company, demonstrated in Kolwezi, Katanga Province, to demand a salary increase. The employees have asked Gcamines' joint venture partners to grant Gcamines a loan against future dividends to help pay for the increased salaries.

(U) Civil Servants Threaten to Strike

Congolese civil servants are threatening to strike by November 5 if they are not given a salary increase. In July 2007, over FC 5 billion (\$10 million) was added to the payroll for salary increases, but the civil servants' union has requested that the GDRC add another FC 5 billion to the payroll to meet the interim salary schedule promised by the government. (Note: The salary for Congolese civil servants ranges from FC 35,000/month (USD 70) to FC 91,000/month (USD 182) for the highest level civil servant in each ministry.)

(U) Civil Servants Demonstrate in Kasai-Oriental

Civil servants in Mbuji-Mayi demonstrated on October 8 to demand payment for September salaries. The Minister of Finance recently asked the Central Bank to freeze payments, and the civil servants have threatened to go on strike in response.

(U) Civil Servants Demonstrate in Lubumbashi

Civil servants in Lubumbashi also demonstrated on October 9 to demand payment of September salaries. Martin Kabwelulu, the Minister of Mines, ordered payments to be suspended prior to the arrival of the Mining Review Commission from Kinshasa. Moise Katumbi, the Governor of Katanga province, calmed the situation by authorizing the payment of salaries.

Mining

(U) Mining Review Lacks Transparency

According to international NGO Global Witness (GW), the GDRC Mining Commission contract review process lacks transparency. GW says that civil society is poorly represented and that the process appears to be subject to interference by the GDRC. GW believes the Mining Commission's recommendations may not adequately reflect the impact on social, environmental and human rights.

U) Civil Society Request Review of Mining Contract

The civil society in Ituri published a memorandum requesting a review by the GDRC of AngloGold Ashanti Kilo's (AGK) mining contract. The civil society accused the AGK of ignoring a clause in the contract that stipulates building a dam in Budana.

(U) Diamond Industry Faces Challenges

The DRC 2007 Annual Review estimates 700,000 diggers earning between USD 30 to 50 per week in the artisanal diamond mining sector. In 2006, the DRC officially exported 30.2 million carats (valued at USD 679 million), 90% of which came from artisanal mines. A new NGO report claims that most of the production from the Orientale and Equateur provinces is smuggled out of the country via Uganda and the Central African Republic. Illegal smugglers avoid the 3.75% DRC tax that is desperately needed to build the country's schools, hospitals, and infrastructure.

(U) De Beers to Spend USD 31 million in DRC

De Beers plans to spend USD 31.4 million to explore new mining areas in the DRC. They have spent over USD 57 million since 1974, mainly on projects in the Kasai provinces. Most projects involve option agreements with Congolese exploration companies, including the state diamond mining company, MIBA (Minieres Bakwanga).

(U) Banro Congo Opens Offices in South Kivu and Maniema

Banro Congo Mining, a subsidiary of Canadian Banro Corporation, finished its gold exploration phase in the provinces of South Kivu and Maniema. The company is now engaged in the exploitation phase and has opened offices in Twangiza, Lugushwa (South Kivu), and Namoya (Maniema).

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(U) Minister of Mines Vows to Help Investors

The DRC Minister of Mines, Martin Kabwelulu, announced at the Mining Forum (FOR MINES) that in order to help investors he will meet with the heads of mining companies on the last Saturday of each month. The Minister also announced that he will meet with the DRC Parliament once a month to talk about problems in the mining sector.

Natural Resources

(U) Pygmy Groups Complain About Harm to DRC Forests

An internal investigation by senior bank staff and outside experts

claims that the World Bank misled DRC about the value of its tropical forests, and encouraged foreign logging of the world's second largest forest. The investigation follows complaints in 2002 by an alliance of 12 Pygmy groups who claimed that irreversible damage has been done to the DRC forests, putting them in potential harm.

(U) European Development Fund Keeps Water Clean

For the next ten months the European Development Fund (EDF) will donate chemicals and equipment to purify drinking water in the DRC. Equipment will include pumps and spare parts necessary to keep the existing distribution system operating. The total donation is estimated at Euros 137 million.

Public Enterprises

(U) Portfolio Minister Defends Public Enterprise Laws

The Minister of Portfolio, Jeanine Mabunda, successfully defended draft laws to restructure the public enterprise system. Introduced to Parliament in August 2007, the laws intend to open doors to privatization and to disengage the GDRC from work in the public enterprise.

Inflation and Exchange Rates

(U) Monthly Inflation Rate Increase

The DRC economy continues an inflationary trend. Post market survey shows an inflation rate of 3.9 percent for the month of October. The year-to-date inflation now stands at 24 percent. The inflation is likely due to an increase of education fees and scarcity of non-food items, such as charcoal and firewood, which are hard to find during the ongoing rainy season.

Week ending: 8/31 9/25 10/30

Central Bank Rates: 495 498 498

Parallel Markets:

Kinshasa	490	495	500
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Lubumbashi	490	495	495
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Mbujimayi	500	505	505
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Kisangani	500	505	505
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Goma	500	500	500
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Bukavu	500	500	500
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